



DEPARTMENT OF
FINANCE

GRAY DAVIS, GOVERNOR

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October 15, 2003

Dr. Jane I. Henderson, Ph.D., Executive Director
California Children and Families Commission
501 J Street, Suite 530
Sacramento, CA 95814

Dear Dr. Henderson:

Final Audit Report on the Children and Families Trust Fund and Related Funds

Enclosed is the final report on our financial audit of the Children and Families Trust Fund and related funds, for the fiscal year ended June 30, 2003. Our audit was performed under interagency agreement number CCFC-6917, between the California Children and Families Commission and the California Department of Finance.

The enclosed report is for your information and use. The responses to the Findings and Recommendations, as well as our evaluation are included herein. We believe the recommendations included in this report will help the Commission improve fiscal accountability.

If you have any questions regarding this report, please contact Richard R. Sierra, Manager, or Frances Parmelee, Supervisor, at (916) 322-2985.

Sincerely,

Samuel E. Hull, Chief
Office of State Audits and Evaluations

Enclosure

cc: Mr. Joseph Munso, Chief Deputy Director, Children and Families Commission
Mr. Bryan Hobson, Chief, Administrative Division, Children and Families Commission

AFINANCIAL STATEMENT AUDIT

California Children and Families Commission Children and Families Trust Fund and Related Funds For the Fiscal Year Ended June 30, 2003

Prepared By:
Office of State Audits and Evaluations
Department of Finance

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The Department of Finance, Office of State Audits and Evaluations, performed this audit under Health and Safety Code Section 130150. The purpose was to audit the Balance Sheets and Statements of Revenues, Expenditures, and Changes in Fund Balance of the Children and Families Trust Fund and related funds (Funds), for the fiscal year ended June 30, 2003. The financial audit objectives were to:

- Express an opinion on the financial statements based on our audit, conducted in accordance with standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.
- Verify that the financial statements were prepared in conformity with the accounting practices as prescribed by the State of California, which is a comprehensive basis of accounting other than generally accepted accounting principles.
- As necessary, report on internal control weaknesses, as well as noncompliance with applicable laws and regulations, and provide recommendations for improving the controls over the Funds' operations.

This report is intended solely for the information and use of the California Children and Families Commission and the Legislature, and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited. Requests for copies should be made to the California Children and Families Commission.

STAFF:

Richard R. Sierra, CPA
Manager

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Supervisor

Jennifer Whitaker
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INDEPENDENT AUDITOR'S REPORT

Dr. Jane I. Henderson, Ph.D., Executive Director
California Children and Families Commission
501 J Street, Suite 530
Sacramento, CA 95814

We have audited the accompanying *Balance Sheets* as of June 30, 2003, and the related *Statements of Revenues, Expenditures, and Changes in Fund Balance* of the Children and Families Trust Fund and related funds (Funds), for the fiscal year then ended. These financial statements are the responsibility of the California Children and Families Commission's (Commission) management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, these financial statements were prepared in conformity with the accounting practices as prescribed by the State of California, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of the Funds as of June 30, 2003, and the results of the Commission's operations for the fiscal year then ended, in conformity with the basis of accounting described in Note 2 to the financial statements.

Compliance

As part of obtaining reasonable assurance about whether the Commission's *Balance Sheets* and *Statements of Revenues, Expenditures, and Changes in Fund Balance* are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an

opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the *Balance Sheets and Statements of Revenues, Expenditures, and Changes in Fund Balance*, and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under *Government Auditing Standards*. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls that, in our judgment, could adversely affect the Commission's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the *Findings and Recommendations* section of this report.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We consider Finding 1 to be a material weakness.

This report is intended solely for the information and use of the Commission and the Legislature, and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.



Samuel E. Hull, CPA
Chief, Office of State Audits and Evaluations
(916) 322-2985

September 30, 2003

BALANCE SHEETS

California Children and Families Commission Balance Sheets At June 30, 2003

	Children and Families Trust Fund (0623)	Counties Children and Families Account (0585)	Mass Media Communications Account (0631)	Education Account (0634)	Child Care Account (0636)	Research and Development Account (0637)	Administration Account (0638)	Unallocated Account (0639)
Assets:								
Cash	\$ 150	\$ 113	\$ 213	\$ 944	\$ 139	\$ 376	\$ 8,862	\$ 747
Investments	23,486,000	57,512,000	53,572,000	97,680,000	59,546,000	69,466,000	14,989,000	32,947,000
Receivables	66,724,132	0	0	0	0	0	0	0
Due from Other Funds	396,208	72,710,036	5,958,806	5,413,965	3,243,504	3,340,825	1,055,347	4,643,674
Expense Advances	0	0	0	0	0	0	3,918	0
Prepayments	0	0	309,000	54,000	0	0	773,000	0
Due from Other Governments	0	0	0	270,935	0	0	0	0
Due From Other Appropriations within the Same Fund	0	0	0	0	0	0	0	0
Total Assets	\$90,606,490	\$130,222,149	\$59,840,019	\$103,419,844	\$62,789,643	\$72,807,201	\$16,830,127	\$37,938,258
Liabilities:								
Payables	\$ 0	\$ 0	\$39,799,740	\$65,782,097	\$40,653,083	\$42,324,214	\$ 111,165	\$25,633,646
Claims Filed	0	47,529,956	612,302	337,398	0	0	37,570	2,168,046
Due to Other Funds	90,606,490	0	474,844	5,119,226	606,965	635,868	34,792	159,609
Due to Local Governments	0	0	0	2,525,393	75,000	489,324	0	330,401
Due to Other Appropriations within the Same Fund	0	0	0	0	0	0	0	0
Total Liabilities	\$90,606,490	\$47,529,956	\$40,886,886	\$73,764,114	\$41,335,048	\$43,449,406	\$183,527	\$28,638,539
Fund Balance:								
	0	82,692,193	18,953,133	29,655,730	21,454,595	29,357,795	16,646,600	9,299,719
Total Liabilities and Fund Balance	\$90,606,490	\$130,222,149	\$59,840,019	\$103,419,844	\$62,789,643	\$72,807,201	\$16,830,127	\$37,938,258

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

California Children and Families Commission Statements of Revenues, Expenditures, and Changes in Fund Balance For the Fiscal Year Ended June 30, 2003

	Children and Families Trust Fund (0623)	Counties Children and Families Account (0585)	Mass Media Communications Account (0631)	Education Account (0634)	Child Care Account (0636)	Research and Development Account (0637)	Administration Account (0638)	Unallocated Account (0639)
Revenues:								
Cigarette Tax	\$596,116,424	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Interest on Investments	934,708	634,493	1,283,361	2,049,821	1,166,713	1,446,668	306,203	707,432
Escheated Checks	0	0	0	16,296	0	0	274	0
Other Revenue	0	0	0	1,718,791	0	0	0	0
Other Financing Sources - Operating Transfers In	0	447,697,706	33,577,328	27,981,107	16,788,664	16,788,664	5,596,221	11,192,443
Total Revenues and Other Sources	<u>597,051,132</u>	<u>448,332,199</u>	<u>34,860,689</u>	<u>31,766,015</u>	<u>17,955,377</u>	<u>18,235,332</u>	<u>5,902,698</u>	<u>11,899,875</u>
Expenditures:								
Operating Expenditures	1,929,000	452,333,858	28,144,509	27,246,917	2,713,032	10,279,177	3,812,014	9,940,128
Other Uses - Operating Transfers Out	<u>595,122,132</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures and Other Uses	<u>597,051,132</u>	<u>452,333,858</u>	<u>28,144,509</u>	<u>27,246,917</u>	<u>2,713,032</u>	<u>10,279,177</u>	<u>3,812,014</u>	<u>9,940,128</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	0	(4,001,659)	6,716,180	4,519,098	15,242,345	7,956,155	2,090,684	1,959,747
Fund Balance, July 1, 2002	0	86,693,852	12,236,953	25,136,632	6,212,250	21,401,640	14,555,916	7,339,972
Fund Balance, June 30, 2003	<u>\$ 0</u>	<u>\$ 82,692,193</u>	<u>\$ 18,953,133</u>	<u>\$ 29,655,730</u>	<u>\$ 21,454,595</u>	<u>\$ 29,357,795</u>	<u>\$ 16,646,600</u>	<u>\$ 9,299,719</u>

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

California Children and Families Commission Children and Families Trust Fund and Related Funds For the Fiscal Year Ended June 30, 2003

NOTE 1 Definition of Reporting Entity

The Children and Families Trust Fund (Fund 0623) and its related accounts were created by the California Children and Families Act of 1998 (Act). The Act is intended to promote, support, and improve the early development of children from the prenatal stage to five years of age. The programs authorized by this Act are administered by the California Children and Families Commission (Commission) and by county Children and Families Commissions.

Effective January 1, 1999, Section 30131.2 of the Revenue and Taxation Code authorized the State Board of Equalization (Board) to collect 87 cents for each cigarette pack distributed and a surtax on other tobacco products. Of the 87 cents collected, 50 cents is allocated to the Fund. All Board adjustments, including Act related administrative costs are deducted from the cigarette and tobacco products taxes, before the rest of the revenues are transferred to Fund 0623.

Fund 0623 was established to provide funding for research and development, education, training, and other functions specified in the Act. However, it primarily functions as a pass-through clearing account, with all funds that are transferred in being disbursed to its related accounts according to allocation percentages established by the Act. The county commissions receive 80 percent of the funding and the Commission receives 20 percent, which is allocated to six separate accounts, as illustrated in the following table.

Fund/Account	Tax Revenue Allocation	Fund Purpose
Counties Children and Families Account (0585)	80%	This fund is established for the 80 percent of the funds received in the California Children and Families Trust Fund (0623) to be allocated and appropriated to county commissions and expended for the purposes authorized in accordance with each county's strategic plan.
Mass Media Communications Account (0631)	6%	To provide funding for communications to the general public utilizing television, radio, newspapers, and other mass media furthering the goals and purposes specified in the <i>California Children and Families Act of 1998</i> .
Education Account (0634)	5%	To provide funding for education goals and purposes as specified in the <i>California Children and Families Act of 1998</i> .
Child Care Account (0636)	3%	To provide funding for child care goals and purposes as specified in the <i>California Children and Families Act of 1998</i> .
Research and Development Account (0637)	3%	To provide funding for research and development goals and purposes as specified in the <i>California Children and Families Act of 1998</i> .
Administration Account (0638)	1%	To provide funding for administrative costs and other purposes as specified in the <i>California Children and Families Act of 1998</i> .
Unallocated Account (0639)	2%	To provide funding for any other purposes of the <i>California Children and Families Act of 1998</i> , except that no expenditures for administrative costs may be made from this account.

Each county commission receives a portion of the monies equal to the percentage of the number of live births recorded in the relevant county (for the most recent reporting period) in proportion to the entire number of live births recorded in California (for the same period). Vital statistics compiled by the Department of Health Services are used. All fund expenditures must be incurred in accordance with the provisions of the Health and Safety Code, Section 130105 (d), subsections (A) through (F).

NOTE 2 **Summary of Significant Accounting Policies**

a. Basis of Presentation

The Children and Families Trust Fund and related fund accounts (Funds) are classified as *Other Governmental Cost Funds* for State of California financial reporting purposes. *Other Governmental Cost Funds* are one of four classes of the State of California's special revenue funds and are used to account for other revenues that are restricted by law for specified purposes.

b. Measurement Focus and Basis of Accounting

The accounting method used for the Funds' financial accounting and reporting purposes is in compliance with the accounting policies and procedures prescribed by the California State Administrative Manual and the California Government Code, which is a comprehensive basis of accounting other than generally accepted accounting principles (GAAP). Except for encumbrances being accrued as accounts payable and recognized as expenditures at year-end, rather than a reserve to fund balance, this method is consistent with the modified accrual basis of accounting, whereby revenues are recorded when they become measurable and available and expenditures are recorded when the related liability is incurred.

c. Revenue

Revenues consist of the cigarette taxes collected on sales of cigarette packs and other tobacco products, interest income earned on funds deposited in the Surplus Money Investment Fund (SMIF), and unclaimed checks escheated to the issuing fund.

In addition, revenue was also generated through contract agreement #CCFC 01-16490 between the Commission and the Department of Health Services to produce and distribute "New Parent Kits" to various statewide counties. The revenue posted to Fund 0634 offsets the Commission's expenditures to produce and distribute these kits.

d. Expenditures

Expenditures are recognized when claims to the State Controller are filed against fund appropriations, or when monies are transferred to the State Payroll Revolving Fund for the payment of salaries and wages. Valid expense commitments, including encumbrances, are accrued as accounts payable at June 30.

e. Cash and Pooled Investments

Cash is deposited in the State's centralized treasury system, which combines the balances of state agencies into a single bank account to simplify cash management. Idle Fund cash is invested in the State's SMIF (a pooled investment account), managed by the Pooled Money Investment Board. Each fund whose monies are deposited in this pooled investment account has an equity share in the balance, with investment income allocated to participants based on relative equity at month end. The Fund's "Cash and Investments" are available upon demand and are considered cash equivalents.

f. Due To/From Other Funds

The "Due to Other Funds" account for Fund 0623 represents the cigarette tax revenues due to the other seven Commission funds as described in Note 1. Additionally, the "Due to Other Funds" account for the other six funds represents allocations due to the Unallocated Fund 0639 for the School

Readiness Program administered by the Commission. Under this Program, the Commission distributes funds to eligible counties, in addition to the required 20 percent allocation of cigarette taxes as noted in Note 1, to assist with the development of children ages zero through five to ready them for school.

The "Due from Other Funds" account represents the amounts due from the Children and Families Trust Fund (Fund 0623) for the cigarette tax revenue allocations and SMIF interest.

g. Claims Filed

Claims filed represent claim schedules approved for payment that have been filed with the State Controller's Office as of June 30, 2003. The balance of this account is increased as claims are filed and is reduced as the State Controller's Office issues warrants for payment of claims.

h. Encumbrances

In accordance with State accounting procedures, valid encumbrances are recognized as expenditures at fiscal year-end. However, this accounting treatment is not consistent with GAAP, which requires that encumbrances be classified as a reserve of fund balance. The Funds recognized \$203,157,630 of encumbrances as accounts payable at fiscal year-end. Encumbrances are fund commitments related to unperformed contracts, purchase orders, and other agreements. Encumbrances are estimated as to amounts and are recorded when purchase orders, contracts, or other similar documents of a purchase agreement are issued. However, because encumbrances are estimated commitments, the related expenditure incurred may vary and/or may never be recognized. The following table identifies the amount of encumbrances accrued as accounts payable as of June 30, 2003.

SUMMARY OF ACCRUED ENCUMBRANCES	
Fund	Encumbered Amount
Children and Families Trust (0623)	\$ 0
Counties Children and Families (0585)	0
Mass Media Communications (0631)	30,094,973
Education (0634)	65,691,550
Child Care (0636)	40,653,083
Research and Development (0637)	41,037,486
Administration (0638)	48,931
Unallocated (0639)	25,631,607
Total	\$203,157,630

i. Fund Balance

Fund balance is the difference between Fund assets and liabilities, and represents the unencumbered balance of all appropriations for which the period of availability extends beyond June 30, 2003.

j. Interfund Transfers

Legally authorized transfers between State funds are reported on the *Statements of Revenues, Expenditures, and Changes in Fund Balance* as “Other Financing Sources–Operating Transfers In” and “Other Uses–Operating Transfers Out”, and are accounted for as increases or reductions of the Fund Balance.

“Operating Transfers Out” of the Children and Families Trust Fund 0623 equals the sum of the statutorily required backfill of the Proposition 99 health-related education and research programs and the Breast Cancer Fund, and the “Operating Transfers In” of the six related Funds. The “Operating Transfers In” are calculated based on the applicable percentage of Fund 0623 revenues, which include cigarette taxes and SMIF interest income.

The backfill is required by the Health and Safety Code section 130105 which states, “The State Board of Equalization shall determine within one year of the passage of this act the effect that additional taxes imposed on cigarettes and tobacco products by this act has on the consumption of cigarettes and tobacco products in this state. To the extent that a decrease in consumption is determined by the State Board of Equalization to be the direct result of additional taxes imposed by this act, the State Board of Equalization shall determine the fiscal effect the decrease in consumption has on the funding of any Proposition 99 (the Tobacco Tax and Health Protection Act of 1988) State health-related education or research programs in effect as of November 1, 1998, and the Breast Cancer Fund programs that are funded by excise taxes on cigarettes and tobacco products. Funds shall be transferred from the California Children and Families Trust Fund to those affected programs as necessary to offset the revenue decrease directly resulting from the imposition of additional taxes by this act. Such reimbursements shall occur, and at such times, as determined necessary to further the intent of this subdivision.”

Backfill is calculated by the Board of Equalization’s Research and Statistics Unit every October, and presented to the Board for approval. Historically, the Board has approved those recommended amounts. This year, the Board departed from prior-years’ treatment of backfill and approved a different amount. In an effort to ensure ongoing consistency, the Commission plans to work closely with the Board of Equalization, county commissions, and other interested parties to develop an objective, predictable, and consistent procedure for the yearly determination of the backfill amount.

k. Retirement Plan

Employees of the Commission are members of the California Public Employees’ Retirement System (CalPERS), which is a defined benefit contributory retirement plan. Retirement contributions by employees are set by statute as a percentage of payroll (Tier I employees), or are zero (Tier II employees). Retirement contributions are actuarially determined under a program where total contributions plus CalPERS’ investment earnings will provide the necessary funds to pay retirement benefits when incurred. The

employer contributions are included in the cost of personal services. For further information, refer to the annual single audit of the State of California, and to the CalPERS Comprehensive Annual Financial Report.

I. Vacation and Sick Leave

Under the State's accounting guidelines, the costs of vacation and sick leave are not recorded at the time the benefits are earned, but rather when incurred. When leave is used, the personal services expenses account is charged. Under GAAP, the accumulation of employees' vacation and sick leave credits is accounted as a liability to be charged when the credits are used.

NOTE 3 Budgeting and Budgetary Control

The Funds are classified as *Other Governmental Cost Funds* for budgetary purposes. An *Other Governmental Cost Fund* is used to account for revenues from taxes, licenses, and fees where the use of such revenues is restricted by law for particular functions or activities of government. Program funds are continuously appropriated without regard to fiscal year.

Commission management is responsible for exercising budgetary control to ensure that appropriations are not overspent at the fund level. The State Controller's Office is responsible for statewide appropriation control and does not allow expenditures in excess of authorized appropriations.

NOTE 4 Litigation

The Commission has been involved in two refund actions that challenge the constitutionality of the California Children and Families Act of 1998. The actions are:

- California Association of Retail Tobacconists (CART), et al. v. Board of Equalization, et al.
- Cigarettes Cheaper!, et al. v. Board of Equalization, et al

CART and Cigarettes Cheaper! alleged that the Act violates 11 sections of the California Constitution and related provisions of the law. The two cases were consolidated and successfully defended. Although the Fourth District Court of Appeal affirmed in full the trial court's decision, the plaintiffs filed petitions for review with the California Supreme Court.

On September 29, 2003, the Commission was notified by the Department of Justice that the California Supreme Court denied the appeal petitions. According to the Department of Justice, it is highly unlikely that these cases will be appealed to the United States Supreme Court and are considered successfully concluded.

FINDINGS AND RECOMMENDATIONS

During our audit of the California Children and Families Commission's (Commission) Children and Families Trust Fund and related funds (Funds), we noted certain matters concerning the accounting and administrative controls that we consider reportable conditions. We consider Finding 1 to be a material weakness. If left uncorrected, these weaknesses could compromise the accuracy of the Commission's financial statements.

FINDING 1 The Commission's Monitoring of Encumbrances Needs Improvement

Condition: The Commission needs to improve its fiscal review and monitoring of encumbrances. Although the Department of General Services' Contracted Fiscal Services (CFS) maintains the Commission's official accounting records, the Commission does not maintain adequate internal records for fiscal monitoring purposes. Specifically, the Commission does not reconcile the year-end CALSTARS D16 report (Payables and Encumbrances) to its internal documents, and may be unable to ensure the completeness and accuracy of the year-end balances. Complicating effective reconciliation is the CFS' practice of recording some transactions on a net basis, without establishing the full amount of the initial encumbrance. As a result, the information reflected on the D16 report is not consistent with the Commission's internal documents. In 5 of 11 encumbrances tested, the actual contract amounts did not agree with the document amounts reported on the D16 report.

Further, although the Commission states that it reconciles encumbrances on a monthly basis (except for June 30), the completed reconciliations are not retained. Without evidence of completed reconciliations, there is no assurance that the reconciliations are accurately completed, increasing the risk of material misstatement. We found a \$50,000 disbursement that went unrecorded by both CFS and the Commission, raising doubts about the accuracy of the monthly reconciliation.

The Commission has a fiduciary responsibility for ensuring the accuracy of its records. The quality of system-generated information affects management's ability to control activities, make appropriate decisions, and prepare reliable financial reports. Without ongoing monitoring, reconciliation, and document retention the potential for undetected errors or irregularities increases.

This is a recurring condition from a prior audit.

- Criteria: The State Administrative Manual (SAM) section 7920 states that each agency is responsible to complete any reconciliation necessary to safeguard the State's assets and ensure reliable financial data.
- SAM section 7901 states that all reconciliations will be prepared monthly within 30 days of the preceding month, and that reconciliations will be retained at least two years.
- SAM sections 7221 and 20050 require supporting documentation as the basis for recording transactions, and that adequate internal accounting controls are in place to safeguard assets and assure the reliability of accounting data.
- CALSTARS Procedure Manual, Exhibit III-D16, states that the "Original Document" column is defined as "The amount established by the original accounting transaction."
- Recommendations: The Commission should:
- A. Prepare a year-end encumbrance reconciliation between its internal records and the CALSTARS D16 report. The reconciliation process should include working closely with CFS to ensure that the reconciliation is complete, correct, and sufficiently documented for all transactions, including error corrections and adjustments.
 - B. Maintain copies of all monthly reconciliations for at least two years to ensure that fiscal activities are accurately reconciled to the CALSTARS D16 report.

FINDING 2 The Commission Needs to Improve its Monitoring of Property

- Condition: The Commission does not maintain complete control and accountability over its property. Specifically, the Commission has not performed a complete physical count of all property (including both on-site and off-site property) within the past three years, and may be unable to ensure the accuracy of recorded balances. For some items, the serial numbers differed from those listed on the property ledger, raising doubts about the ledger's completeness. Furthermore, the Commission does not maintain a log of property assigned to employees. As a result, the Commission may be unable to prevent loss, damage, or theft of State property and equipment.

This is a recurring condition from a prior audit.

- Criteria: SAM section 8652 states that departments or agencies will make a physical count of all property and reconcile the count with the accounting records at least once every three years.

Recommendations: The Commission should:

- A. Complete a physical count of all property (including both on-site and off-site property) and reconcile the count with the accounting records.
- B. Ensure that all property is correctly listed in the property ledger.
- C. Maintain a log of property assigned to employees.


COMMISSION'S RESPONSE TO THE FINDINGS AND RECOMMENDATIONS



Memorandum

Date: October 14, 2003

TO: Samuel E. Hull, Chief
Office of State Audits and Evaluations
Department of Finance
915 L Street
Sacramento, CA 95814

FROM: ^{for} Joseph P. Munso 
Chief Deputy Director
California Children & Families Commission
501 J Street, Suite 530
Sacramento, CA 95814

SUBJECT: RESPONSE TO FINDINGS - CCFC FISCAL AUDIT FOR FY02/03

The California Children and Families Commission (CCFC) staff has carefully reviewed the results of the audit performed by the Office of State Audits and Evaluations for Fiscal Year 2002/2003. We are pleased to note that the primary purpose of the audit disclosed that the revenues entrusted to this commission have been correctly and responsibly managed and reported according to California State accounting rules and regulations.

Subsequent to receiving the letter from the Attorney General's Office, this office has learned that the legal appeal was denied. Please update your Note to reflect this. A letter confirming this information from the Attorney General's Office is attached.

I would like to address the material findings only, which are responded to below.

- Finding 1 – We must disagree with the characterization of the existing reconciling procedures employed by CCFC staff. CCFC staff do continuously monitor and reconcile accounts every month, and coordinate corrections with Contracted Fiscal Services (CFS), DGS, which are immediately edited. Year end reports were not reconciled only when CCFC was notified by CFS that the reports were unusable for our reconciliation. However, it was brought to our attention that the retention of the monthly documents used in that reconciling was essential for auditing the process. Consequently, files have already been established to permit the organized retention of reconciling

CALSTARS reports and any other documents used in the process. We agree with the comments relative to the problems with the D16 as it is currently presented. CCFC staff will work diligently with CFS to ensure that a standard reliable and fully understood method of constructing and using the D16 CALSTARS report is established. Unfortunately, the unique and singular example used would not, and did not, surface during the reconciliation process, because it was the result of a recording error made by both CCFC and CFS. However, we did appreciate having it brought to our attention for correction. It should be noted that this was a recordkeeping issue only, and that no funds were disbursed or lost as a result.

- Finding 2 -- Property records have been effectively reconciled with DGS records on a routine basis, and annual physical inventories have been conducted, more frequently than required by SAM, in order to ensure property control. However, we agree that specific efforts to physically inventory off-site equipment has been less than those applied to the three offices at this address. Consequently, CCFC intends to include an off-site component to the next annual physical inventory of CCFC property. Additionally, although the equipment sign-out form and process had been established earlier, greater efforts will be made to ensure that it is used as intended.

CCFC staff has always striven to meet the organizational fiscal responsibilities in the most accurate and responsible fashion, and welcomed fiscal audits as an opportunity to improve methods and procedures. This audit was extremely thorough and complete, and met the anticipated benefits of improving a variety of procedures currently in place. We greatly appreciate the diligence and professionalism displayed by the audit team.

Attachment

EVALUATION OF RESPONSE

We have reviewed the Children and Families Commission's (Commission) response to our draft report, and have modified our report (Note 4) to reflect the current status of the litigation. We also provide the following comments on those issues for which the Commission partially disagreed with our findings and recommendations:

Finding 1 The Commission's Monitoring of Encumbrances Needs Improvement

We agree that the noted weakness is a primarily result of not maintaining sufficient documentation regarding the reconciliation process.

Finding 2 The Commission Needs to Improve its Monitoring of Property

Although the Commission conducts physical inventories of on-site property on a regular basis, the off-site property should also be inventoried in order to ensure that all State property is safeguarded and accounted.